Idaho Public Utilities Commission

Case No. IPC-E-14-16, Order No. 33067 and Case No. IPC-E-14-07, Order No. 33068
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Commission opens cases to re-examine PCA, FCA

BOISE (July 3, 2014) – The Idaho Public Utilities Commission is opening two cases that may result in changes to the way the variable portion of rates are calculated for Idaho Power Company ratepayers.

Rates are adjusted every year on June 1 as part of the utility's Annual Adjustment Mechanism. The fixed-cost portion of rates, called base rates, is adjusted only when there is a rate case. But two smaller components of rates, the Power Cost Adjustment (PCA) and the Fixed Cost Adjustment (FCA), are changed every year due to changing conditions. The adjustments can be either an increase or a decrease to overall rates.

Since 1993, the PCA allows Idaho Power to adjust rates to reflect that portion of costs that change every year due to factors largely beyond the company's control. Because about half of Idaho Power's generation is from hydropower facilities, Idaho Power's actual cost of providing electricity, called its power supply cost, varies depending on changes in Snake River streamflows. Other costs that change power supply cost each year are the market price of power, fuel costs, transmission costs for purchased power and the revenue the company earns from selling surplus power.

This year's PCA was an average increase of 1.04%.

In the most recent PCA case, commission staff claimed that the current PCA mechanism may have allowed Idaho Power to collect $14.2 million more than necessary in line loss expense. Line loss is power lost in the course of transmitting and distributing energy. Conditions such as distance, size of the transmission or distribution line and severe weather result in line loss that can be as much as 10 percent. Without being allowed rate recovery for line loss, the utility would bear the cost of generating power that is consequently not paid by the customer due to line loss.

In a separate case, the commission will also be looking at how the FCA is calculated. This year's FCA was an increase of 1.2% for residential and small-business customers.

The FCA is designed to ensure Idaho Power recovers its fixed costs of delivering energy even when energy sales and revenue decline due to reduced consumption. Before the FCA, Idaho Power did not have financial incentive to invest in energy efficiency because it lost revenue as consumption declined. Even though consumption may decline, fixed costs to serve customers do not. To remove that disincentive, the Fixed Cost Adjustment was created to allow the utility to recoup its fixed costs.

The FCA has helped make it possible for Idaho Power to create about 30 programs that increase efficiency and reduce demand on its system, especially during peak periods when demand is highest and most expensive to both the company and its customers.

If the actual fixed costs recovered from customers by Idaho Power are less than the fixed costs authorized in the most recent rate case, residential and small-commercial customers get a surcharge. If the company collects more in fixed costs than authorized by the commission, customers get a credit.

As in the PCA case, commission staff and other parties found what they perceive to be flaws in the FCA mechanism. Among those are 1) the way the FCA mechanism is calculated using averaged instead of actual weather conditions, 2) using an average rather than a median when calculating customer counts and 3) possibly exceeding the 3% cap on FCA increases by using forecasted sales and revenues. Commission staff is also concerned that residential and businesses classes who pay the FCA may be subsidizing other customer classes.

Commission staff said the FCA may no longer be serving its intended purpose. Staff noted the company's annual energy savings did grow rapidly during a three-year pilot phase for the FCA, peaking in 2010 before dramatically dropping off in 2013. Idaho Power said it continues to aggressively pursue savings programs and that customer participation was up in 2013. The decline in actual energy savings, the company claims, is due to a change in the way savings are measured.

Both the PCA and FCA are relatively a small component of overall rates. For example, a residential customer who uses Idaho Power's average of 1,050 kilowatt-hours per month pays an energy rate of about 9 cents per kWh during the non-summer months and 10 cents per kWh during the summer months. The PCA is slightly less than a half-cent addition (0.4852 cents per kWh) to base rates. The FCA is 0.2913 cents per kWh.

Parties who wish to intervene in the cases for the purpose of presenting evidence and cross-examining witnesses must do so by no later than July 15. Later, dates for a pre-hearing conference and customer comment deadlines will be established.

A full text of the commission's orders and other documents related to these cases is on the commission's Website at www.puc.idaho.gov. Click on "Open Cases" under the "Electric" heading and scroll down to Case No. IPC-E-14-16 for the PCA and IPC-E-14-17 for the FCA.

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